***Greater Sudbury Hydro Inc./***
***Hydro du Grand Sudbury Inc.***

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February 14, 2005

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
26th floor
Toronto, ON M4P 1E4

Attention: Mr. Zych, Board Secretary

Dear Mr. Zych:

Re: Ontario Energy Board 2006 Electricity Distribution Rate Handbook

After reviewing the Draft EDR Handbook and attending the public consultation session at the Ontario Science Centre I would like to bring to the Board's attention the immediate concerns of Greater Sudbury Hydro Inc. (GSHi), which we believe also applies to other electricity distributors.

The year 2004 is an inappropriate base year for GSHi unless provisions are made available to normalize controllable expenses. GSHi endured a four (4) month labour disruption which had the effect of understating the Corporation's true labour costs and other operating expenditures due to significantly reduced activity during the key summer period.

Without a mechanism to normalize GSHi's cost structure our rate base will be established at an artificially low amount. In the spirit of fairness, within the distribution industry you must agree that such an anomaly would be inappropriate.

The second point we would like to raise is in the area of the proposed tier 1 adjustments. Accommodation must be made to adjust on an ongoing basis for labour costs. Within our industry approximately 55% of our cost structure is attributed to labour which is subject to the provisions of long standing collective agreements. In our situation, our newly entered into agreement has wage increases of 3%, 3% and $2^{1/2}$% during its three-year life. Without a mechanism to pass these costs through to the consumer it is impossible to expect the industry to absorb these costs through efficiency measures on an ongoing basis. In GSHi's situation, the effects could be compounded should our rate base for 2004 not be adjusted to mitigate the effects of the labour disruption that we endured.

The final point that we would like to raise is that the proposed approach of re-rate basing the industry on the basis of 2004 costs would further unjustly penalize distributors like GSHi who have been operating without any MARR increments. Those utilities that have current rates that inlcude MARR increments and that are not generating full returns due to high cost structures are getting to pass these costs through in their 2006 rates and are realizing full rates of return over and above through the proposed process. Whereas, GSHi would have to go through the tier II process and be subject to extensive and costly hearings and be required to develop forward looking operating projections which would undergo extensive regulatory review without any assurance that the costs or rate requirements would be approved. It appears the current high cost operators are entitled to a double bonus as they will benefit from the ability to automatically pass their current costs on to the consumer and secondly have a high cost base, which allows greater scope to re-organize their operations to meet of future PBR obligations.

Thank you for the opportunity to raise our concerns. The base document is well crafted and we offer our congratulations to the Board's staff and committee members on a job well done.

Yours truly,

D. Reeves, President & Secretary

S. Pawlowicz, Vice President - Corporate Services

:dr/jak